Market Information
Southeast Asia

Nuggets of the Chicken Business[1]

Florence E. Mojica
Senior Agribusiness Specialist
Center for Food and Agri Business, UA&P

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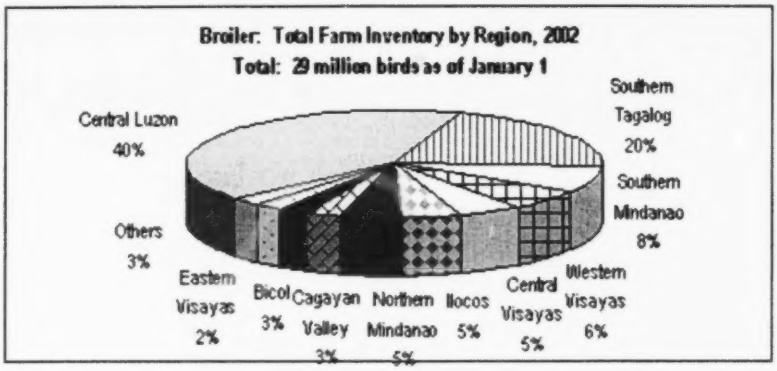
The Philippines is a P37-billion broiler market (equivalent to 570 million kilos of chicken). The market has been growing at about 4 to 6% per annum over the last five years.

It is segmented into two broad groups: *foodservice and HRI* (hotels, restaurants and institutions) which include major fastfood chains, "lechon manok" chains, hotels, restaurants, and carinderias; and *households*, which are catered by the wet markets, supermarkets, hypermarts, groceries, meat shops, convenience stores and some direct selling activities.

Fastfood, lechon manok chains and HRI account for almost 70% of institutional consumption. Small stalls and carinderias capture the rest. Wet markets are by far the most popular source of chicken for households. Household buyers tend to purchase their daily needs at the wet market because of preference for warm meat, mostly in cut ups form.

Supply and Demand

Five integrators are supplying the market: San Miguel Foods, Inc. Swift Foods, Inc. Vitarich Corporation, Tyson Agro Ventures, Inc. and Universal Robina Corporation. These integrators supply around 80% of the total demand; non-integrators or other commercial growers are supplying the remaining 20%. Production is concentrated in Central Luzon (40%) and Southern Tagalog (20%).



Source: Bureau of Agricultural Statistics

Supply of Grand Parent Stocks (GPS) and Parent Stocks (PS) are mostly imported from the United States (US). From 1990 to 2000, the country imported almost eight million birds. The dramatic increase in breeder chick imports in 1995 (two million birds) resulted in a bumper broiler output in 1996 and 1997. However, in 2000, import volume fell to 1.7 million birds. Integrators had to limit importation to reduce the level of production.

Imports of frozen chicken come mostly from the US. Some US imports are coursed through Singapore.

The country imported minimal amounts of frozen chicken in 1995 as many integrators pursued expansion activities owing to high demand as a result of the reduction of pork demand due to the FMD outbreak. After the country's accession to WTO and its lifting of the quantitative restrictions in 1996, frozen imports went up dramatically in 1997 and 1998. In 1999, imports reached a new high of 29,000 tons due to the massive entry of imported leg quarters from the US.

The current (2001) tariff for chicken meat is 45% in-quota and 60% out-quota.

Table 1. FROZEN CHICKEN IMPORTATION, 1990-2001

YEAR	VOLUME (Tons)	VALUE (US$'000 CIF)	Volume Growth (%)	Value Growth (%)
1990	184	700		
1991	30	90	(83.9)	(87.1)
1992	8	27	(73.5)	(70.0)
1993	106	398	1,255.9	1,366.6
1994	198	1,367	86.5	243.6
1995	181	1532	(8.4)	12.0
1996	199	405	9.9	(73.5)
1997	962	1257	384.0	210.2
1998	2417	2738	151.1	117.8
1999	29,316	23,121	1,112.9	744.5
2000	16,529	19,748	(43.6)	(14.6)
2001	10,830	7,595	(34.5)	(61.5)

SOURCE: National Statistics Office

The Philippines produces an average of 500,000 tons per year with an average annual growth of 5%. Chicken consumption is relatively low at 6.7 kg per capita (ready-to-cook equivalent), far lower than those of Thailand and Malaysia at 11.5 kg and 27 kg, respectively. As chicken is income-responsive, the projected growth will exceed the growth in real consumption expenditures.

Table 2. PHILIPPINES: POULTRY SUPPLY AND DEMAND TRENDS

	Inventories	Slaughtered			Consumption	
YEAR	'000 Heads	'000 Heads	Prod'n	Imports	Total	Per Capita (kg)
			in '000 tons in ready-to-cook equivalent			
1995	86,852	357,900	399	1	401	5.5
1996	104,986	407,610	464	1	458	6.1
1997	123,497	444,860	496	3	503	6.6
1998	125,351	440,000	491	4	499	6.4
1999	102,472	480,000	500	31	530	6.7
2000(p)	101,471	na	520	24	543	6.7
2001 (f)	na	na	530	34	560	6.8

p - preliminary; f - forecast
SOURCE: BAS, Philippines; US Department of Agriculture

The Market

The market will remain to be concentrated on foodservice and households. Both markets have distinct preferences. The fastfood chains require large volume delivery, mainly marinated cut-ups. They are very strict in size and product specifications and very particular on value quality, service and reliability. Other HRI, however requires primarily whole chicken and have more variable pricing as against the relatively stable prices of fastfood chains.

Wet markets, on the other hand, provide the daily requirement of household purchases, offering both whole chicken and cut-ups. Wholesale prices are fluctuating while retail prices at the wet markets are inelastic. Retailers tend to increase margin when the volume is low to provide necessary daily earnings. Households also buy from supermarkets and hypermarts. According to an industry source, around 10% of the volume is being sold at the supermarket level. Supermarkets also offer housebrands, i.e., Bonus and Wow, which compete with the integrators' brands (Magnolia, Purefoods, Cooks, Swift, etc.).

What to expect?

The Philippine poultry industry will remain to be viable. The value-added chicken products have a large potential for growth. A number of processed chicken products are now available in the market: nuggets, hotdog/cheesedog, poppers/popcorn, donuts, pica-pica, spaghetti sauce, cordon bleu and marinated chicken (Korean, spicy, garlic, honey BBQ, etc.)

With the increasing population, demand for chicken and chicken products

will be sustained and this can provide a steady growth to the industry. Chicken consumption is directly proportional to increases in income. With the constantly growing domestic market, and growth in eating out spending, chicken consumption will move up.

There are, however, threats such as the entry of cheap chicken parts like leg quarters, low cost of production of ASEAN neighbors, new legislation and food safety and ethnic requirements (HACCP, GMP, SPS, Codex Alimentarius, ISO, Halal) which make production more costly.

What needs to be done?

The industry needs to develop and implement a road map for long-term sustainability, with the objective of providing more consistent supply of healthful and affordable protein source. It must strive to be efficient. While the industry can produce whole chicken competitively with low tariff on corn, competing with imported leg quarters is going to be a different ride. At 40% tariffs in 2004, imported chicken parts will still land cheaper.

Improvement in productivity requires investment in new infrastructure and technology to keep at pace with our neighboring countries. Compliance to international quality standards is a major step that would lead to the development of the export market.

Players should continue to implement more performance-based contract schemes with business partners or growers and raise efficiency levels through new ways of doing things. Greater cooperation among integrators and commercial growers is necessary as well as cooperation with other parts of the value chain for better processing, storage and logistics support. The key to a competitive poultry industry is production efficiency and least cost of production.

Analysis of Strengths, Weaknesses, Opportunities and Threats	
ADVANTAGES	**CONSTRAINTS**
Strengths	**Weaknesses**
Large domestic market	Low per capita consumption
Large institutional markets	High cost of chicken
Presence of integrators	High cost of feeds
Access to feed and production technologies	High import content of feeds and other farm inputs
Achieving good technical efficiencies (i.e. FCR)	High logistics costs
Opportunities	**Threats**
Growing domestic marke of 80 million people	Entry of cheap imported chicken parts
Growing eating out spending	High price of domestic chicken
Low per capita consumption	High cost of feeds
Export potential	Inflexible pricing (sticky downwards) in the retail markets

1.* This industry brief was published by the Manila-based University of Asia & the Pacific, Center for Food & Agri Business in the May 2002 issue of the Food & Agribusiness Monitor, primarily for a Philippine audience. This industry brief is being made available to Canadian businesspeople in order to provide basic market information should there be export interest in relevant agrifood commodities.

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